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**FISCAL IMPACT STATEMENT**

**LS 7674**

**BILL NUMBER: SB 430**

**NOTE PREPARED: Jan 16, 2007**

**BILL AMENDED:**

**SUBJECT:** Local option tax distributions after annexation.

**FIRST AUTHOR:** Sen. Gard

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** \_\_\_GENERAL  
DEDICATED  
FEDERAL

**IMPACT:** Local

**Summary of Legislation:** This bill adjusts the formulas for distribution of revenue from the County Adjusted Gross Income Tax (CAGIT), the County Option Income Tax (COIT), and the County Economic Development Income Tax (CEDIT) to reduce the share of a municipality that annexes territory.

**Effective Date:** July 1, 2007.

**Explanation of State Expenditures:**

**Explanation of State Revenues:**

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Under current law, CAGIT property tax replacement credits (LPTRC) are distributed to civil taxing units and school corporations. CAGIT and COIT certified shares are distributed only to civil taxing units. CEDIT certified shares are distributed only to counties and municipalities.

CAGIT and COIT certified shares, and CAGIT LPTRC are distributed to qualifying taxing units, proportioned on the basis of:

- 1) The taxing unit's previous year property tax levy; MINUS
- 2) The levy for debt incurred after June 30, 2005; PLUS
- 3) The taxing unit's share of LPTRC or certified shares received in the previous year.

CEDIT certified shares are distributed to qualifying taxing units proportioned, at the county's option, on the

basis of either:

- A) The taxing unit's previous year property tax levy; OR
- B) The municipal population versus the unincorporated county population.

This bill would limit the increase in the distribution base for municipalities that annex additional area after June 30, 2007. The levy base used for the municipality would be reduced by 50% of the part of the levy paid by taxpayers in the annexed area.

In the case of a county that opts for the population-based distribution, the municipality's population base would be reduced by 50% of the annexed population and the county's population base would be increased by the same amount.

When a municipality annexes additional area, its population and property tax levy normally increase as a result. This increase shifts a portion of local option income tax shares from the rest of the qualifying units in the county to the municipality. This proposal would reduce that shift by half in the future. The fiscal impact depends on future annexations.

**State Agencies Affected:** Department of Local Government Finance.

**Local Agencies Affected:** Local civil taxing units and school corporations.

**Information Sources:**

**Fiscal Analyst:** Bob Sigalow, 317-232-9859.